25 APR 1972

MEMORANDUM FOR: Director of Central Intelligence

SUBJECT   : Costing Soviet Military Programs

        1.   This memorandum comments briefly on our work
on costing Soviet military programs and outlines some
recent steps we have taken to improve this work. An
additional action along these lines requiring your
approval is recommended in paragraph 7.

        2.   In various discussions with you in the recent
past I have sensed your unease concerning our estimates
of military spending. At a recent USIB meeting, General
Bennett voiced some particular problems with the present
estimates. General Graham, DIA's Director of Estimates,
has reservations on CIA's estimates of Soviet military
spending and has been seeking the opinions of numerous
military analysts, including people from universities
and contractor organizations. I will comment later
on General Graham's steps, but first let me review a
bit of history and some recent events in our cost work.

        3.   Over the years the Department of Defense has
been the primary consumer of CIA's work on military
spending as well as a major source of data and advice
on US accounts and US costing methods. We have care-
fully nurtured these links and, on the whole, relations
have been excellent. Defense Department acceptance
of the professional workmanship of the product was
reflected in the agreement in 1965 between Secretary
Vance and Director McCone establishing CIA as the
central point in the community where the costing of
Soviet military programs was to be done. Our closest
ties have been with the Office of the Assistant Secre-
tary of Defense for Systems Analysis, with the Office
of the DoD Comptroller, with DIA, and with the NSC
Staff.

4. I believe that over the years CIA has done
its work on Soviet military costing carefully and
well. This is not to say that the quality of the
work is uniformly perfect or that once done well it
can be forgotten. The Office of Strategic Research
regularly evaluates and refines its methods and its
data--again in consultation with components of the
Defense Department.

5. For example, in the past year an arrangement
was made with Admiral Zumwalt's staff for a senior
naval officer skilled in naval planning and economics
to spend several weeks in Bruce Clarke's shop to
evaluate the data and analytic approach used by OSR
to cost the Soviet navy. This officer reported to
us and to his own department, commenting favorably
on OSR's work and offering some useful suggestions
which OSR has incorporated into its system. Similarly,
OSR has worked with Dr. John S. Foster's people on
ways to improve our analysis of Soviet R&D. Most
recently a number of interagency cost working groups--
chaired by OSR--have been meeting to reexamine all
of the ruble-dollar values now used. These groups
draw on the full expertise of the community and the
military services.

6. I believe that progress is being made in our
work and that the work to date is fundamentally sound.
At the same time, I am convinced that only confusion
can result from General Graham's attempt to draw a
large number of outside experts and contractors--at
a minimum clearance level--into the analysis.

7. To put the problem of costing Soviet military
programs into a clear perspective and to provide you
and others in the community with disinterested but
expert advice, I recommend that you instruct me to
establish a small panel of recognized specialists
outside of government who can go into our methods
and our data thoroughly and on an all-source classi-
fication level. If you approve of this step, I
recommend that you sign the attached memorandum to
General Bennett informing him of your instructions

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to me and stating that I will be in touch with him
concerning the membership of the panel.

EDWARD W. PROCTOR
Deputy Director for Intelligence

Attachment:
  Memorandum to
  General Bennett

Recommendation contained in paragraph 7 is APPROVED.

Richard Helms	2 5 APR 1972
Director of Central Intelligence	Date

Distribution: (all with copy of Director's memo to General Bennett)
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